

Weekly Snapshot 7/27/20

Market Review: Week Ending 7/24

Nasdaq stocks fell for the 2nd consecutive week (-1.3%) as less-than-stellar Q2 results from Tech bellwethers Microsoft and Intel led to a small pullback (-0.3%) in the S&P 500 Index to 3215¹. There is now enough awareness and focus on the heavy concentration and high valuations of the 5 stocks that make up 22% of the S&P 500 index that any disappointment is likely to be met with selling pressure¹. That was the case this week with Microsoft where their Cloud Computing segment's growth fell below 50% for the first time in recent quarters¹, sending the stock lower despite strong earnings. Surging Covid-19 cases are blamed for a rise in weekly unemployment claims, which rose to 1.42m, the first increase in weekly claims in four months and, along with mounting tensions between China and US, led to the first pullback in the S&P 500 Index in 4 weeks¹. Finally, uncertainty over the continuation (and timing) of the soon-to expire Federal unemployment benefits and a potential "income cliff" that would result from nonaction also led to the modest selling, where 8 of 11 Index sectors fell¹. Despite a strong housing sector (Existing Home Sales surged 20.7% in June and Home prices rose another 3.5% to a median price of \$295k¹), the economic outlook in the US is being questioned given the rising number of virus cases now totaling over 4m (only 2 weeks after hitting 3m), whereas in Europe, the outlook seems to be improving as the composite PMI for the EU rose to 54.8 in July, up from 48.5 the prior month¹. This occurred in conjunction with the EU1.8T extension in fiscal stimulus in Europe¹. Through the close Friday, year to date results for the major indices are as follows: S&P 500 0.6%, Russell 2000 -11.4%, MSCI EAFE -7.3% and Bloomberg Barclays Aggregate Bond 7.4%².

What We Are Watching in the Week Ahead:

- **Earnings Reports** - Another heavy week of corporate earnings reports are slated this week. Some of the majors to report Q2 results include Amazon, Apple, Facebook, Visa, Procter & Gamble, PayPal, Pfizer, Merck, and Exxon Mobil¹. Guidance for the back half of 2020 is more important to investors than the results for a quarter where most of the economy was locked down. The outlook for dividends will also be watched. Analyst estimates are improving for Q2, with the S&P 500 companies now expected to show a 35% decline, better than the 44% estimate coming into the quarter as 80% of companies that have reported have beaten expectations so far in Q2¹.
- **Stimulus Talk:** Investors are counting on an extension of Federal unemployment insurance as 30m people are receiving benefits that will expire on July 31st if no action is taken¹. Senate Republicans were said to have agreed on a \$1T plan that will serve as the beginning of negotiations with House Democrats. A second stimulus check is expected to be part of the plan, though this time with limits on incomes for eligibility. Any breakdown in talks that leads to a gap in replacing incomes lost to Covid-19 related unemployment is likely to be met with selling, as the massive stimulus efforts to date are largely credited with the current level of equities.

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References: 1. FactSet 7/26/20, 2. Morningstar Direct 7/26/20

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